

PERFORMANCE AUDIT
OF THE
CASH RECEIPTS OPERATIONS
DEPARTMENT OF STATE

EXECUTIVE DIGEST

CASH RECEIPTS OPERATIONS

INTRODUCTION	This report contains the results of our performance audit* of the Cash Receipts Operations, Department of State.
AUDIT PURPOSE	This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*.
BACKGROUND	<p>The Department is responsible for registering motor vehicles; licensing motor vehicles, watercraft, snowmobiles, motorcycles, motor vehicle operators, chauffeurs, motor repair facilities, and motor vehicle dealers; and collecting the fees and taxes thereon.</p> <p>The mission* of the Department is to provide the most efficient and effective services to the people of Michigan through the licensing of drivers and the registration and titling of vehicles; the regulation of automobile dealers and repair facilities; the registration of voters and administration of elections; the preservation of Michigan's history; and the streamlined collection of revenue.</p>

* See glossary on page 17 for definition.

During fiscal year 1997-98, the Department collected approximately \$1.9 billion of revenue at the central office and at 178 branch offices.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of the Department's cash receipts operations.

Conclusion: We concluded that the Department's cash receipts operations were generally effective and efficient. However, our assessment disclosed reportable conditions* in the areas of system access controls, vehicle registration fees, and not sufficient funds checks (Findings 1 through 3).

Noteworthy Accomplishments: During our audit, the Service Delivery Administration established an Office of Quality Assurance. The Office and Bureau of Branch Office Services (BBOS) developed and issued a Quality Assurance Manual for the branch offices. The manual provided monthly planning calendars and a suggested list of activities. It also included forms to record information, such as quarterly change fund audits and quarterly cashier code changes. BBOS also provided general information about good management practices, resource information for the Department, and best practice items to share among branch offices.

Audit Objective: To assess the effectiveness and efficiency of the Department's revenue recording function.

Conclusion: We concluded that the Department's revenue recording function was generally effective and

* See glossary on page 17 for definition.

efficient. We did not note any reportable conditions related to this audit objective.

Noteworthy Accomplishments: As of November 1, 1996, the Department implemented an interface program that allowed it to post revenue transactions on the Michigan Administrative Information Network (MAIN) to the appropriate revenue account one day after collection. The same interface program also provides daily feedback on branch office overages/shortages for immediate follow-up.

Prior to November 1, 1996, Department revenues were initially recorded in MAIN as undistributed receipts. The distribution to the appropriate revenue account was made 20 days after the month of collection by keyed entries. The new interface program provides a more timely and reliable method of distributing the Department revenue collections.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the cash receipts operations processes and related records of the Department of State. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included an examination of the Department's records and activities covering the period October 1, 1996 through August 31, 1998. To accomplish our audit objectives, we reviewed management plans and Department policies and procedures. We obtained an understanding of the internal control structure for the Department's cash receipts operations and recording of revenue.

We observed daily activities and interviewed staff responsible for opening mail and for recording and depositing cash receipts.

We visited 11 branch offices having cash collection and processing responsibilities. We interviewed branch office staff and observed daily operations to identify the mechanism used and procedures in place for collecting, handling, depositing, and recording cash receipts. We tested branch office transactions to determine whether the Department charged the proper fees.

We reviewed the Department's internal control structure to determine if revenue was properly recorded in MAIN.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report contains 3 findings and recommendations. The Department agrees with the findings and will comply with 1 recommendation. However, the Department informed us that it cannot comply with 2 of the recommendations because of limited budget resources.

The Department had complied with 10 of the 11 recommendations included in our prior audit of Receipts Operations, the Single Audit^{*}, and our audit of the Driver Licensing and Vehicle Registration Processes. We repeated 1 prior audit recommendation in this report.

^{*} See glossary on page 17 for definition

The Honorable Candice S. Miller
Secretary of State
Treasury Building
Lansing, Michigan

Dear Secretary Miller:

This is our report on the performance audit of the Cash Receipts Operations, Department of State.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Department of State is 1 of 18 principal departments of Michigan government. The Department's executive officer is the Secretary of State, an elected official with a four-year term. The Department is responsible for registering motor vehicles; licensing motor vehicles, watercraft, snowmobiles, motorcycles, motor vehicle operators, chauffeurs, motor repair facilities, and motor vehicle dealers; and collecting the fees and taxes thereon.

The mission of the Department is to provide the most efficient and effective services to the people of Michigan through the licensing of drivers and the registration and titling of vehicles; the regulation of automobile dealers and repair facilities; the registration of voters and administration of elections; the preservation of Michigan's history; and the streamlined collection of revenue.

The Department is organized into the Executive Office and three main organizational units: Department Services Administration; Regulatory Services Administration; and Service Delivery Administration. Two of these units are involved with cash receipts operations.

The Department Services Administration is responsible for the financial and administrative operations of the Department. These operations are concentrated in the Bureau of Administrative Services. This Bureau is comprised of the Budget Division, Finance Division, Management Services Division, and Acquisition and Administrative Division. The Finance Division includes the Revenue Accounting Section. This Section is responsible for the cash receipts operations, which encompass the accounting for and distribution of receipts received by the Department.

The Service Delivery Administration includes the Bureau of Branch Office Services (BBOS) and the Bureau of Driver and Vehicle Records. BBOS is responsible for the Statewide system of the Department's branch offices. BBOS's primary functions are to register vehicles, license vehicles and operators, and collect the fees provided for in the Motor Vehicle Code. The Bureau of Driver and Vehicle Records is responsible for collecting fees, processing transactions, microfilming documents, reconciling branch

office collections and transactions processed, correcting erroneous transactions, and processing transactions that were not entered into the Department's computerized system.

During fiscal year 1997-98, the Department collected approximately \$1.9 billion of revenue at the central office and at 178 branch offices.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit of the Cash Receipts Operations, Department of State, had the following audit objectives:

1. To assess the effectiveness and efficiency of the Department's cash receipts operations.
2. To assess the effectiveness and efficiency of the Department's revenue recording function.

Audit Scope

Our audit scope was to examine the cash receipts operations processes and related records of the Department of State. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed between June 8, 1998 and September 25, 1998. To accomplish our objectives, we examined the Department's records and activities covering the period October 1, 1996 through August 31, 1998. We reviewed management plans and Department policies and procedures. We obtained an understanding of the internal control structure for the Department's cash receipts operations and recording of revenue.

We observed daily activities and interviewed staff responsible for opening mail and for recording and depositing cash receipts at the Department's central cashiering office.

We visited 11 branch offices having cash collection and processing responsibilities. We interviewed branch office staff and observed daily operations to identify the mechanism used and procedures in place for collecting, handling, depositing, and recording cash

receipts. We tested branch office transactions to determine whether the Department charged the proper fees established by the *Michigan Complied Laws*.

We reviewed the Department's internal control structure to determine if revenue was properly recorded in the Michigan Administrative Information Network (MAIN).

Agency Responses and Prior Audit Follow-Up

Our report contains 3 findings and recommendations. The Department agrees with the findings and will comply with 1 recommendation. However, the Department informed us that it cannot comply with 2 of the recommendations because of limited budget resources.

The Department had complied with 10 of the 11 recommendations included in our prior audit of Receipts Operations, the Single Audit, and our audit of the Driver Licensing and Vehicle Registration Processes. We repeated 1 prior audit recommendation in this report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

CASH RECEIPTS OPERATIONS

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Department of State's cash receipts operations.

Conclusion: We concluded that the Department's cash receipts operations were generally effective and efficient. However, our assessment disclosed reportable conditions in the areas of system access controls, vehicle registration fees, and not sufficient funds checks.

Noteworthy Accomplishments: During our audit, the Service Delivery Administration established an Office of Quality Assurance. The Office and Bureau of Branch Office Services (BBOS) developed and issued a Quality Assurance Manual for the branch offices. The manual provided monthly planning calendars and a suggested list of activities. It also included forms to record information, such as quarterly change fund audits and quarterly cashier code changes. BBOS also provided general information about good management practices, resource information for the Department, and best practice items to share among branch offices.

FINDING

1. System Access Controls

The Department had not developed a system to monitor compliance with internal control procedures for restricting branch office access to the Intelligent Terminal (I.T.) System.

I.T. System access is restricted through the use of a cashier code. Employees are required to change their cashier code at least once every three months. The System did not force employees to change the cashier codes, but the Department did establish compensating controls. The BBOS Quality Assurance Manual provided a form for the branch office managers to obtain cashiers' signatures on

quarterly cashier code change forms indicating that the cashiers had changed their cashier codes.

Our review of March and June 1998 cashier code change forms at 11 branch offices disclosed that 2 branch offices had no documentation for cashier code changes for March or June 1998. Also, 3 other branch offices did not have documentation for cashier code changes in June 1998. BBOS management did not require documentation. It could not be determined whether the codes had been changed more or less frequently than every three months.

Noncompliance with BBOS procedures increases the risk that a person could obtain a valid cashier code, gain access to the I.T. System, and perform unauthorized transactions, such as registering vehicles.

We noted the same weakness in the I.T. access controls in our performance audit of the Driver Licensing and Vehicle Registration Processes, issued June 16, 1997. The Department responded that a programming request was submitted to require employees to change their cashier codes at the start of each quarter. However, at the time of our audit, the programming had not been changed.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT DEVELOP A SYSTEM TO MONITOR COMPLIANCE WITH INTERNAL CONTROL PROCEDURES FOR RESTRICTING BRANCH OFFICE ACCESS TO THE INTELLIGENT TERMINAL (I.T.) SYSTEM.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation but informed us that it cannot comply because of limited budget resources.

The Department informed us that it would have to completely rewrite the computer software to force the cashiers to change their cashier codes. The Department plans to include this change when it develops a new transaction system.

FINDING

2. Vehicle Registration Fees

BBOS had not developed internal control procedures to help ensure that the Department charged accurate fees for vehicles registered.

Section 257.801(q)(i) of the *Michigan Compiled Laws* provides that registration fees are to be calculated based upon the manufacturer's suggested base list price as published by the Secretary of State. The dealers use the manufacturer's suggested base list price to calculate the fee category.

Branch offices process vehicle registrations on new cars based upon the information provided by the dealers on the statement of vehicle sales (RD-108). Dealers are provided ad valorem fee information that documents the correct fee category or weight class they should enter on the RD-108 for vehicles sold. BBOS calculates the registration fees based on the information entered on the RD-108 by the dealers. The branch offices do not verify the accuracy of the information provided.

We tested 750 vehicle registrations and noted that the fee category or weight used to determine the registration fee was not correct in 79 instances (10.5%). As a result of the incorrect fee category, the Department overcharged or undercharged the registration fees.

RECOMMENDATION

We recommend that BBOS develop internal control procedures to help ensure that the Department charges accurate fees for vehicles registered.

AGENCY PRELIMINARY RESPONSE

The Department agreed with our recommendation but informed us that it cannot comply because of limited budget resources.

The Department will research an acceptable electronic solution to base list price verification.

FINDING

3. Not Sufficient Funds (NSF) Checks

The Department had not developed internal control procedures to help ensure that the Department suspends licenses and/or registrations and collects claims in a timely manner when NSF checks are returned.

Sections 257.801c and 257.258 of the *Michigan Compiled Laws* state that the Department may cancel, revoke, or suspend the licenses and/or vehicle registrations of persons paying with NSF checks.

The Department of Treasury forwards returned NSF checks to the Revenue Accounting Section, Department of State, for disposition. The Revenue Accounting Section enters information about issuers of NSF checks into the accounts receivable system. The accounts receivable system generates notices to the issuers, not less than 60 days from the date the check was written. The notice informs the issuer that NSF collection procedures require the Department of State to suspend the operator or chauffeur licenses and/or the vehicle registrations of persons tendering NSF checks.

Our review of 69 judgmentally selected NSF checks disclosed that 11 checks were outstanding for 106 to 560 days. The Department did not suspend the operator or chauffeur license and/or the vehicle registrations of the persons tendering the checks.

Department personnel informed us that checks accepted at the branch offices are required to have the plate and/or license number documented on the back of the checks. When the clerk fails to record the plate and/or license number on the back of the checks they accept, the Department often cannot determine which plates to suspend should the checks be NSF checks.

The Department's failure to comply with established procedures to suspend licenses and/or vehicle registrations of persons tendering NSF checks reduced the Department's effectiveness in collecting money owed for NSF checks.

RECOMMENDATION

We recommend that the Department develop internal control procedures to help ensure that the Department suspends licenses and/or registrations and collects claims in a timely manner when NSF checks are returned.

AGENCY PRELIMINARY RESPONSE

The Department agreed and will comply with the recommendation.

The Department informed us that it is complying for International Registration Plan NSF checks. Also, the Department informed us that the Finance Division will notify the Service Delivery Administration of NSF checks with insufficient information until the Department implements a new system.

REVENUE RECORDING FUNCTION

COMMENT

Audit Objective: To assess the effectiveness and efficiency of the Department's revenue recording function.

Conclusion: We concluded that the Department's revenue recording function was generally effective and efficient. We did not note any reportable conditions related to this audit objective.

Noteworthy Accomplishments: As of November 1, 1996, the Department implemented an interface program that allowed it to post revenue transactions on MAIN to the appropriate revenue account one day after collection. The same interface program also provides daily feedback on branch office overages/shortages for immediate follow-up.

Prior to November 1, 1996, Department revenues were initially recorded in MAIN as undistributed receipts. The distribution to the appropriate revenue account was made 20 days after the month of collection by keyed entries. The new interface program provides a more timely and reliable method of distributing the Department revenue collections.

Glossary of Acronyms and Terms

BBOS	Bureau of Branch Office Services.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
I.T.	Intelligent Terminal.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
mission	The agency's main purpose or the reason the agency was established.
NSF	not sufficient funds.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

Single Audit

A financial audit performed in accordance with the Single Audit Act of 1984 that is designed to meet the needs of all federal grantor agencies and other financial report users. A Single Audit is a financial audit which requires additional study and evaluation of the internal control structure and testing of compliance with laws and regulations relevant to federal assistance programs.